

**DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT  
SEPTEMBER 2005**

**CON REVIEW: LTACH-NIS-0605-018  
MMBNDR581, L.L.C ., D/B/A LEE COUNTY SPECIALTY SERVICES HOSPITAL  
ESTABLISHMENT OF A 27-BED LONG-TERM ACUTE CARE HOSPITAL  
CAPITAL EXPENDITURE: \$2,994,000  
LOCATION: TUPELO, LEE COUNTY, MISSISSIPPI**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

The applicant, MMBNDR581, L.L.C. is a Louisiana limited liability company authorized to do business in the state of Mississippi. William Mendenhall of Jackson, Mississippi, is approved as MMBNDR581, L.L.C.'s registered agent. The for-profit company is governed by a three-member governing board consisting of the owners. The applicant provided evidence demonstrating the principals' expertise in the ownership and management of long-term care facilities including both skilled nursing homes and a long-term acute care hospital in Louisiana.

**B. Project Description**

MMBNDR581, LLC seeks Certificate of Need (CON) authority to construct a facility that conforms to Mississippi licensure codes as a 27-bed acute care hospital in Tupelo (Lee County) to be named Lee County Specialty Hospital; purchase 27 general acute care hospital beds presently de-licensed by Noxubee General Critical Access Hospital (Noxubee County); relocate the purchased beds to the newly constructed facility; and operate the facility as a 27-bed long-term acute care hospital (LTACH).

Both Noxubee and Lee counties are within General Hospital Service Area 1. A copy of the *Agreement for the Sale and Purchase of Assets* (to acquire beds from Noxubee General Critical Access hospital) is included in the application.

The proposed Lee County Specialty Hospital will be a newly- constructed 18,000 square foot general acute care hospital with space for 27 private patient rooms, administration, therapy rooms, dietary, laundry, housekeeping, and other services necessary to provide long-term acute care, according to the applicant.

The applicant proposes to provide chronic or long-term medical care to patients who do not require more than three (3) hours of rehabilitation or comprehensive rehabilitation per day. The MMBNDR581, L.L.C. proposed program will include ventilator care, coma emergencies, traumatic brain injury, and medically complex care. The ventilator care program will offer 24-hour respiratory therapy and an aggressive weaning plan. The medically complex care program is for patients who require long-term acute care with specialized nursing, intravenous therapy services, and physical therapy services. These patients may be stable but have multi-system problems requiring specialized services. This hospital system is designed to fill the gap between short-term acute care hospitals and skilled nursing homes, according to the applicant.

The applicant projects that by the end of the third year of operation, 104.2 full-time-equivalent personnel will be needed, at an estimated personnel cost of \$3,636,338.

The total proposed capital expenditure is \$2,994,000. Of that amount, approximately 53 percent is associated with new construction; 28.4 percent each for fixed and non-fixed equipment and land cost and preparation; and the remaining 18.6 percent for fees, contingency reserve, capitalized interest, and purchase of 27 de-licensed beds from Noxubee County.

The Division of Health Facility Licensure and Certification has approved the proposed site for the construction of an acute care hospital.

## II. Type of Review Requested

This project is reviewed in accordance with Section 41-7-191, Subparagraphs (1)(a), (b), (d)(xiv), and (g) of the Mississippi Code of 1972, Annotated, as amended, and duly adopted rules, procedures, plans, criteria and standards of the Mississippi Department of Health.

In accordance with Section 41-7-197(2) of the Mississippi Code of 1972, Annotated, as amended, any affected person may request a public hearing on this project within 20 days of publication of the staff analysis. The opportunity to request a hearing expires on October 17, 2005.

## III. Conformance with the *State Health Plan* and Other Adopted Criteria and Standards

### A. State Health Plan (SHP)

The *FY 2005 Mississippi State Health Plan* contains criteria and standards which an applicant is required to meet before receiving CON authority for the construction, development, or other establishment of a new health care facility. This application seeks approval for the construction, establishment of a long-term acute care hospital, the change of ownership of 27 acute care beds, and the relocation of those beds. The acute care bed-need formula contained in the *Plan* governs need analysis only when the number of licensed beds in the planning area increases as a result of a new facility. Since the number of licensed acute care beds in the area will not increase as a result of this project, the bed-need formula is not applicable. This application submitted on behalf of MMBNDR581, L.L.C. is in substantial compliance with applicable criteria and standards contained in the *Plan*.

#### **SHP Criterion 1 - Need**

The *FY 2005 State Health Plan* requires a minimum of 450 clinically appropriate restorative care admissions with an average length of stay of 25 days and a financial feasibility of the project by the third year of operation. According to the applicant, there was the potential of an excess of 450 clinically appropriate long-term acute care admissions within the hospital service area with an average length of stay of 25 days in 2004. The applicant also expects a net profit of \$681,346 at the end of the third year of operation.

The applicant obtained the services of a registered nurse consultant who specializes in long-term care. The consultant reviewed the twenty most common inpatient diagnostic related groups (DRG) for four of the hospitals for which the applicant has referral agreements:

Baptist Memorial Hospital-Booneville,  
Baptist Memorial Hospital-Golden Triangle,  
Baptist Memorial Hospital-North Mississippi, and  
Baptist Memorial Hospital-Union County.

Based on the consultant's comparison of FY 2004 data from these DRGs with the various categories and sub-categories of "restorative care admissions" listed in the *State Health Plan*, these four hospitals had 2,800 patients that fell within the state's restorative care categories

Restorative Care Admission Categories	Number of Patients
a. Neurological Disorders	251
b. Central Nervous Disorders	268
c. Cardio-Pulmonary Disorders	<u>2281</u>
<b>TOTAL</b>	<b>2,800</b>

Note: Restorative Care Admissions Category d., Pulmonary Cases, was not counted because the University of Mississippi Medical Center in Jackson has patients with respiratory system diagnosis with ventilator support hospitalized within the area.

The applicant feels that the data supporting 2,800 potential admissions during 2004 is evidence that the hospitals will generate the 450 clinically appropriate restorative care admissions with an average length of stay of 25 days by the end of the third year of operation.

**SHP Criterion 4 - Indigent/Charity Care**

MMBNDR581, L.L.C. affirms that it will provide a "reasonable amount" of indigent/charity care.

**SHP Criterion 5 - Reasonable Construction and Equipment Cost**

The applicant estimates that the construction of the proposed Lee County Specialty Hospital will cost \$112.44 per square foot, which is below the low range for hospital construction. The *2005 Means Construction Cost Data* book shows the low, medium, and high range per square foot for hospital construction cost of \$152, \$181, and \$275 per square foot, respectively. The proposed construction and equipment cost does not exceed the median construction cost of similar projects approved by the Department within the past 12 months by more than 15 percent.

**SHP Criterion 6 - Floor Area and Space Requirements**

The project will consist of new construction which will contain appropriate floor areas and space requirements and will compare favorably to state and national norms for similar projects and will meet AIA standards for such facilities. There are no "special considerations due to local conditions" required for this project, according to the applicant.

**SHP Criterion 7 - Transfer Agreements**

The application contains transfer agreements between the proposed Lee County Specialty Hospital and Baptist Memorial Hospital-North Mississippi, the University of Mississippi Medical Center, Baptist Memorial Hospital-Booneville, and Noxubee County Critical Access Hospital for acute care and/or rehabilitation transfers in case of an emergency.

**B. General Review (GR) Criterion**

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2000 Revision*, addresses general criteria by which all CON applications are reviewed. This project, submitted on behalf of MMBNDR581, L.L.C., to establish a long-term acute care hospital in Tupelo, Mississippi is in substantial compliance with these general review criteria.

**General Review (GR) Criteria 2 - Long Range Plan**

This project is in accordance with the applicant's long-range plan. The applicant states that after implementation, they will review the local situation and reassess their long range plan to provide other appropriate specialty services.

**General Review (GR) Criteria 3 - Availability of Alternatives**

Alternatives considered by the applicant include:

- Alternative 1 - Retain the status quo

Under this alternative there would be no additional general acute care hospital offering long-term acute care services. Patients in need would continue to receive services in settings not ideally suited to deliver the level of care desired. This is an unacceptable alternative, according to the applicant.

- Alternative 2 - Locate in an existing hospital

This alternative has apparently been used successfully; however, it is no longer ideal. CMS has changed its rules so that "hospitals within hospitals" are limited in the amount of patients they can serve from their own facility. With corporate health care it is unlikely hospitals will be discharging their patients to a competing acute care facility with an in-hospital LTAC, according to the applicant.

- Alternative 3 - Develop a general acute care hospital offering long-term care hospital services

With medical care becoming more and more specialized, this is the only reasonable alternative, according to the applicant.

**General Review (GR) Criteria 4 - Economic Viability**

a. Comparable Charges

The applicant states that nearly all patients will be Medicare patients and Medicare sets the reimbursement rates for LTAC patients. The applicant expects an expense of \$558 and a charge of \$750 per patient day during the third year of operation. These charges are comparable to other proposed charges contained in other LTAC applications.

b. Projected Level of Utilization

The *FY 2005 State Health Plan* indicates that the existing LTACH hospitals experience an aggregate occupancy rate of 59.39 percent. The applicant projects a utilization rate of 9,490 patient days of service or a 96.3 percent occupancy rate during the third year of operation. The applicant might be overly optimistic in the estimated occupancy rate. General Hospital Service Area 1 has one hospital with CON approval for 35 LTACH beds.

c. Financial Feasibility

The application contained a letter signed by the chief financial officer of MMBNDR581, L.L.C. attesting that after review of the cost analysis, a study of the pro forma budget, a review of the project amortization, and a comparison to their existing facilities, this project is financially feasible. The applicant projects a net loss of \$618,801 the first year of operation, but a net income of \$446,984 and \$635,932 during the second and thirds years of operation, respectively.

**General Review (GR) Criteria 5 - Need for the Project**

a. Need of Population Groups

The applicant affirms that all residents of the area, particularly low income persons, racial and ethnic minorities, women, handicapped persons, other under-served groups, and the elderly will have access to the services provided by this proposal.

b. Relocation of Beds

The relocation of 27 general acute care beds from the Noxubee General Critical Access Hospital to the proposed Lee County Specialty Hospital will allow an LTACH to be constructed in close proximity to a large hospital in Tupelo and will simultaneously allow Noxubee County to efficiently reduce its unused bed capacity and comply with regulations for designation as a critical access hospital. The proposed beds that will be transferred have been voluntarily delicensed by Noxubee General Hospital so that the facility might qualify as a critical access hospital.

c. Utilization of Like Facilities in Service Area

Tri-Lakes Medical Center in Batesville is the only CON-approved LTACH for GHSA-1. Tri-Lakes received a CON in December 2003 for 35 LTAC beds, but presently does not have a utilization history because they have not begun to operate.

d. Probable Effect on Proposed Facilities

The applicant states that the Lee County Specialty Hospital will supply a missing part of the continuum of care. Presently, patients can “fall through the gap” requiring more days of hospitalization than will be reimbursed by Medicare. This can place a financial strain on a short term acute care hospital which cannot discharge the patient. The applicant believes that

the proposed Lee County Specialty Hospital will fill that gap and allow the existing short term hospitals to take care of short-term acute care patients and transfer patients to available LTACH facilities when care needs dictate.

e. Community Support

The application contains six letters of community support.

**General Review (GR) Criteria 6 – Access to the Facility or Service**

The applicant affirms that all patients that qualify for long term acute care services as described by the Centers for Medicare and Medicaid Services will be served by the proposed facility regardless of age, handicapped, racial and ethnic minority, or any other protected group.

**General Review (GR) Criteria 7 - Information Requirement**

The applicant affirms that it will record and maintain all information required by this criterion and make it available to the Department within 15 days of a request.

**General Review (GR) Criteria 8 - Relationship with Existing Health Care System**

According to the applicant, long-term acute care is a needed service in the area and, as such, complements the existing health care system. The applicant believes that a complementary service will demonstrate a positive effect on, and positive relationship with, existing services.

**General Review (GR) Criteria 9 - Availability of Resources**

The applicant affirms that sufficient physicians, allied health and support personnel, and nurses are available in the Tupelo area to adequately staff the LTACH.

**IV. Financial Feasibility**

**A. Capital Expenditure Summary**

<b>Cost Item</b>	<b>Projected Cost</b>	<b>% of Total</b>
Construction Cost - New	\$ 1,600,000	58.7%
Renovation	-	0.0%
Capital Improvements	-	0.0%
Total Fixed Equip Cost	150,000	5.5%
Total Non-Fixed Equip Cost	300,000	11.0%
Land Cost	393,300	14.7%
Site Prep Cost	45,000	1.7%
Fees	110,000	4.0%
Contingency Reserve	100,000	3.7%
Capitalized Interest	19,000	0.7%
Other Cost (Acquisition of 27 Acute Care Beds)	270,000	0.0%
<b>Total Proposed Expenditures</b>	<b>\$ 2,994,000</b>	<b>100.0%</b>

The applicant proposes to:

- Purchase 27 de-licensed acute care beds from Noxubee County Critical Access Hospital at \$10,000 per bed or a total of \$270,000;
- Purchase 3.42 acres of land at 807 Garfield Street, Tupelo, Mississippi, at \$115,000 per acre or \$393,300;
- Construct a facility on the site that will accommodate a 27-bed LTACH;
- Transfer the 27 beds from Noxubee County to Lee County; and
- Operate the Lee County Specialty Hospital as a 27-bed LTACH.

**B. Method of Financing**

The applicant proposes to finance the project through a commercial loan. The application contained a letter from J. P. Morgan/Chase indicating willingness to finance the project to the degree of \$2,700,000 construction/permanent real estate loan and a \$750,000 working capital line of credit. The application also contained a letter from the president of MMBNDR581, L.L.C. stating that the company, its owners, and other related entities have the financial capability to provide operating funds for the hospital.

**C. Effect on Operating Cost**

The applicant's Three-Year Projected Operating Statement:

<b>Lee County Specialty Hospital Construction of a 27-Bed Long-Term Acute Care Hospital Tupelo, Mississippi</b>			
<b>Three-Year Pro-Forma Budget</b>			
	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Gross Patient Revenue			
Private	\$ 262,800	\$ 284,700	\$ 284,700
Charity	0	0	0
Medicare	<u>3,375,360</u>	<u>5,818,020</u>	<u>6,832,800</u>
<b>Total</b>	<b><u>3,638,160</u></b>	<b><u>6,102,720</u></b>	<b><u>7,117,500</u></b>
Expenses			
Salaries	1,964,427	2,590,357	3,053,502
Benefits	392,792	502,017	582,836
Consultants	147,300	147,300	147,300
Supplies	216,469	339,034	393,390
Purchased Services	52,892	74,589	84,152
Repairs and Maintenance	35,350	55,276	64,058
Utilities	80,400	80,400	80,400
Administrative and General	295,004	308,761	314,823
Other	<u>465,967</u>	<u>540,886</u>	<u>574,863</u>
<b>Total</b>	<b><u>\$ 3,650,601</u></b>	<b><u>\$ 4,638,620</u></b>	<b><u>\$ 5,295,323</u></b>
Contractual Adjustments	<u>606,360</u>	<u>1,017,116</u>	<u>1,186,245</u>
Net Income (Loss)	\$ (618,801)	\$ 446,984	\$ 635,932
Assumptions			
Patient Days	5,237	8,189	9,490
Expense Patient Day	\$ 697	\$ 566	\$ 558
Charge Patient Day	\$ 695	\$ 745	\$ 750
Percent Occupancy Rate	53.14	83.09	96.30



**D. Cost to Medicare/Medicaid**

<b>Lee County Specialty Hospital Establishment of a 27-Bed Long-Term Acute Care Hospital Tupelo, Mississippi</b>		
<b>Payment Source</b>	<b>Percent Utilization</b>	<b>Annual Operating Expense First Year</b>
Medicaid	0	N/A
Medicare	92.3	\$ 2,812,800 (after allowances)
Private Pay	7.7	\$ 219,000 (after allowances)
<b>Total</b>	<b>100.0</b>	<b>\$ 3,031,800 (after allowances)</b>

**V. Recommendations from Other Affected Agencies**

The Division of Medicaid states that: "The applicant in this case does not attribute any revenue to be derived from serving Medicaid beneficiaries and indicates that the primary payer for their services will be Medicare, since the services to be provided are expected to most often be accessed by the elderly. Based on our experience with similar facilities, however, we estimate there will be an increased annual cost to Medicaid which may approximate \$100,000 - \$200,000 for inpatient hospital services."

**VI. Conclusions and Recommendations**

MMBNDR581, L.L.C. seeks Certificate of Need authority to establish a 27-bed long-term acute care hospital in Tupelo, Mississippi, by:

1. Purchasing 27 de-licensed acute care beds from Noxubee County Critical Access Hospital in Macon, Mississippi;
2. Constructing a 18,000 square foot facility, built to acute care hospital standards, in Tupelo, Mississippi;
3. Transferring the 27-beds from Macon to Tupelo; and
4. Operating the new facility as a Long-Term Acute Care Hospital to be known as the Lee County Specialty Services Hospital.

The *FY 2005 Mississippi State Health Plan*, Acute Care Chapter, includes the standards and criteria for the establishment/expansion/replacement of long-term acute care hospitals. The acute care bed-need formula contained in the *Plan* governs need analysis only when the number of licensed beds in the planning area increases as a result of a new facility. Since the number of licensed acute care beds in the area will not increase as a result of this project, the bed-need formula is not applicable. The project is in substantial compliance with the criteria and standards outlined in the *FY 2005 Mississippi State Health Plan*; the *Mississippi Certificate of Need Review Manual, 2000, as revised*; all adopted rules, procedures, and plans of the Mississippi Department of Health.

The Division of Health Planning and Resource Development recommends approval of this application submitted on behalf of MMBNDR581, L.L.C. for the establishment and operation of the 27-bed long-term acute care facility to be known as the Lee County Specialty Service Hospital, proposed to be located at 807 Garfield Street, Tupelo, Mississippi.